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BACKGROUND DUTCH CABINET FALL

I. Dutch cabinet resignation solely on domestic issue:

A. Catholic-Labor coalition resigned following defeat of controversial rent increase bill.

B. Bill (sponsored by Catholics, approved by cabinet but opposed by Labor Party members of Parliament) provides for average 10% increase in rents on part of Dutch rental housing built pre-war.

1. Labor opposed on grounds possible opening wedge to general hike of government-controlled rents.

II. Some attempt may be made to reshuffle cabinet posts or form new coalition.

A. However, friction among coalition partners has been on increase during past year.

B. Thus, new elections may be called.

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- C. Queen has power to dissolve either or both chambers, with elections following in 40 days.
- D. Cabinet (which includes Catholic People's and Labor Parties, Christian Historical Union and Anti-Revolutionary Party) would continue as a caretaker until elections.

III. New elections would be unlikely to affect present Dutch political alignment:

- A. Catholic and Labor parties (chief coalition members), nearly equal in parliamentary strength.
- B. Voting is by proportional representation and preferences of Dutch electorate basically constant.

IV. If elections held, formation of new government might be long-drawn-out procedure (as was case following '52 general elections):

- A. Premier Drees, a good compromiser and respected by all parties, may wish to retire from active political life.
- B. Election campaign likely to raise sore issue of religion in politics, thus make post-election cooperation between two major parties more difficult.

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BACKGROUND--DUTCH POLITICAL PARTIES

<u>Party</u>	<u>Seats in Second Chamber</u>	<u>Seats in First Chamber</u>	<u>% Popular Vote**</u>
Catholic People's*	30	17	28.67
Labor*	30	14	28.97
Anti- Revolutionary*	12	7	11.31
Christian His- torical Union*	9	6	8.92
Freedom and Democracy	9	4	8.83
Communist	6	2	6.16
Catholic National	2	-	2.71
Political Reformed	2	-	2.42

* Parties in Cabinet

** Based on June 1952 elections for Second Chamber

NOTE: Remaining 2.01 of Popular Vote is split
 between five splinter parties, none of

which won enough votes to elect a deputy.
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SATELLITE REACTION TO
SIGNATURE OF AUSTRIAN TREATY

I. Western observers report--speculation rife in Hungary and Rumania about possibility of Soviet troop withdrawal from these Satellites as a result of Austrian treaty.

A. There have been some rumors that Soviet troops would be withdrawn; others that additional troops would be brought in from Austria.

B. Even before treaty signed, Tito had conjectured that Soviet troops would be withdrawn from line of communications with Austria (i.e., Hungary, Rumania).

C. In both countries fears have been expressed that Warsaw Conference agreement will require the retention of Soviet troops under a new pretext.

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II. Satellite propaganda has interpreted

signature of treaty as a victory for Soviet diplomacy.

- A. A Hungarian editorial claimed, for example, that during the past ten years USSR made consistent efforts to restore Austria's independence, but the Western powers rejected every proposition.
- B. Budapest editorial (16 May): "Western powers...will soon have to evacuate their carefully established Alpine fortress."
- C. All Satellite media (particularly East German) have emphasized the line that the Austrian treaty is a model for Germany in achieving unity and independence.

"FIRST TEAM" TO VISIT BELGRADE

I. Moscow has made a remarkable gesture--to show the world how far it is willing to go in "normalizing" relations and permitting independence and neutrality on the part of small nations in Europe--by announcing (13 May) that a top-level Soviet delegation (including Khrushchev, Gulganin and Mikoyan) will make a pilgrimage late this month to the formerly much-vilified Communist apostate, Tito.

A. Leaders of this team of travelling Soviet good-will salesmen are the same as those who paid the state visit to Peiping last October.

B. Tacit Soviet willingness to make public apology to the Yugos by coming to Belgrade will have strong impact on world opinion as evidence of a basic change of heart in the USSR. Tito has hailed visit as a "courageous decision."

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C. [redacted] Molotov's conspicuous absence from pilgrims' ranks is added measure of intensity USSR's desire insure success of the visit.

D. Molotov is last of "'48 team" that kicked Yugos out of Cominform. Says Yugo foreign minister Popovie: his omission "perhaps has a certain significance."

II. Yugos had kept plans for Soviet visit a close secret.

A. [redacted] initiative came from USSR during course of trade talks in Moscow (Dec '54).

B. However, no hint of subsequent negotiations given Western diplomats in Belgrade.

III. Yugos reported "not too happy" over role of Khrushchev (party boss) as leader of delegation.

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A. His role deemed indication that Soviets

will plug for reestablishment of Party-to-Party relations.

B. While Yugos glad to raise comradely glass to Marx, they reluctant to wake up in bed with Stalin again.

IV. Soviet Belgrade visit represents latest in series of conflicting pressures being applied to Tito:

A. US, UK, and Turks have been trying unsuccessfully to pin Yugos down on subject informal NATO tie, military planning and better cooperation on aid problems.

B. But Tito against further Western military preparations, lest alarmed Soviet reaction foreclose possibility of long-term adjustment differences.

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V. Although outside possibility exists that

Tito and USSR have made or are making a secret deal for eventual Yugo return to Bloc (or for Yugoslav neutrality in event of war), we conclude in new NIE (which goes before IAC today) that basic elements of Tito's policy remain unchanged:

- A. His dominant concern--stay in power as head of independent state.
- B. His first objective--beneficial relations with both sides and minimum of commitments to either.
- C. His second--reduction of likelihood of war since, in all-out conflict between Bloc and West, Yugos likely to be losers no matter which side they chose.

VI. Therefore, we believe that coming meet with Soviets is unlikely to produce major shift in Yugoslav policy.

A. Tito may join in renouncing "aggression,"

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B. Unlikely, however, that he would

join Warsaw Pact or take other steps
flatly inconsistent with present
Balkan commitments or with continued
receipt of Western aid.

C. In this connection, Tito now taking
great pains to reassure West of his
bona fides.

NSC BRIEFING

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AGENDA FOR "SUMMIT" MEET

- I. USSR is continuing drumfire of diplomatic moves designed to:
 - A. Cash in on highly dramatized Soviet "liberality" on Austrian treaty.
 - B. Take credit for prospect of reduction international tension at "summit" meeting this summer.
 - C. Persuade West Europeans in particular and non-Communist world generally:
 1. That USSR wants major East-West detente and reciprocal disarmament;
 2. Within this context, that rearmament West Germany is menace to European peace and security, rather than gain of strength for NATO coalition.
- II. Although these Soviet moves are full of propaganda, they are not just propaganda

gimmicks:

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A. USSR is taking political offensive

worked out and coordinated as carefully as any of Zhukov's massive battlefield assaults.

B. Positions being set forth in advance represent Soviet agenda for "summit" meeting.

C. Aim--weaken US position in Western Europe; stop (or minimize) rearmament West Germany.

III. Main lines of Soviet negotiating position at "summit" laid down in elaborate proposals on disarmament and ending cold war--sprung last week at London talks, and, since then, plugged heavily by Soviet leaders.

A. Core of position is Soviet willingness to agree to:

1. Reasonably realistic disarmament scheme;

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2. System of general security guaran-

tees of any kind (LOCARNO or UN regional grouping) that would satisfy West Europeans as manifest of Soviet peaceful intent.

IV. USSR can go long way in negotiating from this position because:

- A. General war in Europe not in Soviet interest in foreseeable future:
- B. Pushing US off Eurasian continent easier by political pressures on Western Europeans than by military moves, which Soviet leaders know are very dangerous in hydrogen age.
- C. In process, USSR is trying to capture good words in popular lexicon, like "peace"--"disarmament"--"neutrality" and "independence" of small nations.
- D. By contrast, USSR portrays US as advocating high-levels military expenditures, keynoting imminence of war, and demanding that all nations line up "for or against" USSR.

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V. Most telling shots in Soviet barrage last

week were:

- A. Demonstration of "good faith" in sending Molotov, amid fanfare and rejoicing, to sign Austrian treaty on schedule.
- B. Molotov's prompt acceptance of US-UK-French invitation for "summit" meeting.
- C. Bulganin's conclusion of Warsaw Pact.

VI. Establishment of this 8-power Soviet Bloc treaty group (pledged to friendship, co-operation and mutual assistance) also brought into being a long-anticipated "unified" Eastern European military force. Twists at Warsaw: language carefully made clear that:

- A. Non-Communist states will be welcomed into Pact;
- B. Pact, together with its military defense system, would lapse when and if a general European security treaty

- C. This could permit later argument that both Warsaw defense group and NATO are made obsolete by future reduction of world tension, agreement on disarmament, and conclusion of general mutual security system.

VII. Most special gimmick of all at Warsaw-- announcement that participation of East German armed forces in "unified" command would "be examined later."

- A. This saving-out of East Germany as bargaining counter is probably most serious sign that USSR means business in negotiations at "summit."
- B. Ambassador Bohlen said several weeks ago tipoff to earnestness of Soviet wish for a settlement of the German problem would be failure to incorporate East Germany in Warsaw defense system on same basis as other Satellites.

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VIII. However, Soviet interest in detente and Ger-

man settlement not in any sense a Soviet willingness to surrender.

- A. USSR may hope to sell scheme of reciprocal armament limitations in "two Germanies," as part of general security system.
- B. Some such scheme foreshadowed by 10 May Soviet proposal for strict limitation of local police contingents in both parts of Germany.
- C. Under such an arrangement (and with considerable reduction of tension), USSR might in long run be willing withdraw most of its powerful military forces from East Germany; count on political power and security police to maintain essential Soviet control.
- D. In this way USSR could impose safe limits on West German contribution to NATO without giving up East Germany.

NSC/BRIEFING

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AFGHAN CRISIS CONTINUES

- I. Egypt, Saudi Arabia, Iraq, Iran and Turkey have either volunteered or been asked to help settle the Afghan-Pakistan dispute.
 - A. Only firm action to date, however, taken by Saudi Arabia, which has sent Mussaid, youthful uncle of King Saud, to Kabul and Karachi.
 - B. Saudi delegation arrived Kabul 14 May.
 - C. Pak ambassador there says Mussaid is suggesting both sides "forgive and forget" in best Islamic tradition, without any determination of guilt.
 - D. This certainly acceptable to Afghans.
- II. Mussaid peddling of same line in Karachi (where he arrived 16 May) proved totally unacceptable to Paks, who announced 19 May that Saudi mediation efforts had failed.

A. Most Near East mediators-elect appear

to side with Paks in recognizing Afghan
guilt.

B. Paks expect quid-pro-quo for postponing
15 May ultimatum deadline.

III. Afghan prime minister Daud

discouraged by

failure his actions (particularly army
mobilization) to inspire enthusiasm among
Afghan tribes.

A. Daud

willing resign if Moslem nations find
against Pushtoonistan policy.

B. Attitude suggests Daud beginning see
folly his course, lays groundwork for
repudiation of Pushtoonistan.

C. Some indications, however, rest of
Afghan government encouraged by Saudi
attitude and attempting in last few days
to put up stronger front.

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D. Believe Paks firmness and weight of

Near East opinion will eventually
wear down Afghan resistance.

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MACDONALD MOVED TO NEW DELHI

I. Importance of New Delhi in UK view emphasized by appointment of 54-year-old top diplomat and trouble shooter, Malcolm MacDonald, to post UK High Commissioner India (effective September).

A. He has strong backing of Foreign Office, appointment as Commissioner-General in Southeast Asia has been extended several times since 1945.

B. Has reputation as effective diplomat, outstanding conciliator and negotiator.

C. Has widespread respect among Asian peoples.

II. Appointment suggests British consider importance of India as link between West and Sino-Soviet bloc on rise.

A. MacDonald can strengthen Commonwealth ties through sympathy for, ability to make friends with Asians (even at ex-

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and business men).

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1. This was what endeared Moutbattens

to Indians.

- B. As a trained economist he can give
boost to Anglo-Indian trade expansion
and keep close eye on Indian economic
development under Second Five Year Plan.
- C. Will bring to New Delhi personal
knowledge of Communist threat in
Southeast Asia, which may help keep
Nehru from moving closer to Red China.

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BACKGROUND--KASHMIR TALKS CONCLUDED

- I. End of Indo-Pak Prime Ministers' talks on Kashmir announced 18 May. Communiqué indicates no real progress made toward solution of problem.
 - A. Wording of communiqué meaningless, uninformative--"It was decided to continue these talks at a later stage, after full consideration has been given by both Governments to various points that had been discussed..."
 - B. Same sort of language used in past to announce failure reach agreement on major points.
- II. Subsidiary communiqué, issued 17 May, which deals with discussion of means avoiding border clashes (such as 7 May incident, when 12 Indians reported killed), suggests some progress on preventing future occurrences.
 - A. This is a minor problem, however, since such clashes have been occurring for years

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III. India obviously outwaiting Pakistan, firm in

belief Paks eventually will have to accept
status quo.

A. Paks may eventually agree to partition
Kashmir along present cease-fire line, as
desired by India.

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SOUTH VIETNAM

- I. Diem moving cautiously to consolidate military and political gains.
 - A. Personally supervised Army takeover of Imperial Guard at Dalat on 16 May, which has eliminated last source of potential organized support for Bao Dai.
 - B. Vietnamese Army is now encircling Binh Xuyen remnant (1,500 in marshes south of Saigon).
- II. Diem "studying with interest" joint US-French plans for integration of sect troops (Hoa Hao, Cao Dai).
 - A. Cao Dai troops already rallied to Diem, but most Hoa Hao troops remain dissident
 - B. Actual absorption of latter will probably involve much haggling and bribery.
 - C. Diem has complained to Ely of reports that French military are still in contact with Hoa Hao dissidents.

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D. Meanwhile, Cao Dai Pope is reportedly trying to assert authority over sect's forces. Diem believes French encouraging him, as potential focus of anti-government activity.

III. Diem has instructed Information Minister to curb anti-French tendencies in local press.

- A. He still regards heavy concentration of French troops in Saigon area as provocative.
- B. Present disposition of French forces is result of orders by C-in-C (Ely), who--as commander in chief in South Vietnam--also has paper command of UNA.
- C. Should Diem--as brother Luyen declares he will--demand that French troops remaining in Vietnam be stationed at 17th Parallel truce line, action would call into question present command structure.

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IV. Meanwhile, Diem engaged in diplomatic

efforts directed toward:

- A. Prodding truce commission to obtain extension of deadline for refugee movement (which ended 18 May).
- B. Holding US-UK-French-Vietnamese conference in Saigon to demonstrate Vietnam's international standing.

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VIEWS OF JEAN SAINTENY

- I. Jean Sainteny, French delegate to North Vietnam, last week remarked he was surprised US had not closed its consulate in Hanoi.
 - A. Jokingly told American consul Sainteny mission might leave before consul did.
 - B. Sainteny, planning trip to France first part of June, offered to bet he would have difficulty getting transit visa for return travel across US.
- II. Sainteny thought division of Vietnam at 17th Parallel meant that Chinese would take over France's former position in Tonkin, but insisted Viet Minh would resist Chinese domination.

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FORMOSA STRAITS SITUATION

I. Only unusual combat operations were two clashes between ChiCom and ChiNat jet fighters about 50 mi north of Matsu on 15 and 16 May. No damage to either side.

A. Dogfights probably resulted from daily patrol flown by ChiCom planes

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B. ChiComs seem intent on making ChiNat air recon costly, but thus far efforts largely unsuccessful

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II. rail construction in Fukien.

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B. Other Fukien link projected to Foochow from Kueichi, on Chekiang-Kiangsi RR. Link to Amoy will apparently branch out from Nanping, midway between Kueichi and Foochow.

C. None of the Fukien rail construction expected to be completed before 1956.

III. Of five airfields under construction opposite Formosa, USAF expects Nantai (near Foochow) to be completed in June.

A. Three others--Lungtien (S of Foochow), Chingyang (NE of Amoy), and Swatow Northeast probably to be finished in September.

B. Lungchi (W of Amoy) ready in October.